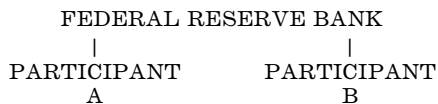


Bank's security interest and grants the Federal Reserve Bank priority over all other claimants (other than the United States pursuant to §357.12(b)).¹⁸ A second method for completing the transaction, as set forth in §357.12(c)(2), would be to take whatever actions are authorized by applicable law. In that case, applicable law is the law of the jurisdiction of the head office of the Federal Reserve Bank. If that jurisdiction had adopted Revised Article 8, it would be the law of that jurisdiction. If that jurisdiction had not adopted Revised Article 8, it would be the law of that jurisdiction as if the jurisdiction had adopted Revised Article 8. Under Revised Article 8, the Federal Reserve Bank's interest would be that of a clearing corporation.

Hypothetical 4

TREASURY

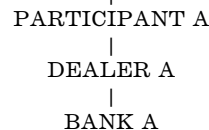


Assume that Participant A wishes to borrow from Participant B and grant Participant B a security interest in its Security Entitlement in Treasury book-entry securities. As provided in §357.12(c)(2), the transaction would be completed pursuant to applicable law determined in accordance with 357.11. Although such an interest could be recorded on the books of a Federal Reserve Bank under §357.12(c)(1), Federal Reserve Banks generally do not mark their books to record this type of security interest for Participants.

Hypothetical 5

TREASURY

FEDERAL RESERVE BANK



Assume that Bank A wishes to borrow from the Federal Reserve Bank and will pledge its interest in Treasury book-entry securities held at Dealer A to collateralize that loan. The transaction could be accomplished in two ways. Pursuant to §357.12(c)(1), the interest could be created and perfected on the books of a Federal Reserve Bank. Such a transaction would take place in the following fashion. Bank A could have Dealer A instruct Participant A to deposit securities to a pledge account specified by the Federal Reserve Bank. The Federal Reserve Bank likely would create an account on its books and specify that account to Bank A as the account to receive Bank A's interest in Treasury book-entry securities. Participant A, upon receiving Dealer A's instructions, would then instruct the Federal Reserve Bank to debit its account at the Federal Reserve Bank and credit the account created by the Federal Reserve Bank. The second way the transaction could take place is by any method permitted by the law of Dealer A's (Bank A's Securities Intermediary) jurisdiction. This could involve a tri-party agreement among the Federal Reserve Bank, Dealer A, and Bank A. As set forth in §357.11(b)(1), that agreement likely would specify which jurisdiction's law is to govern the transaction and could specify that such choice of law supersedes any other choice of law agreement previously entered into by Dealer A and Bank A. If Dealer A's jurisdiction has not adopted Revised Article 8, the applicable law would be the law of Dealer A's jurisdiction as it would be amended by Revised Article 8.

[61 FR 43631, Aug. 23, 1996, as amended at 62 FR 43284, Aug. 13, 1997; 63 FR 69191, Dec. 16, 1998]

PART 358—REGULATIONS GOVERNING BOOK-ENTRY CONVERSION OF BEARER CORPORA AND DETACHED BEARER COUPONS

Sec.

358.0 What does this part cover?

358.1 What special terms apply to this part?

358.2 What regulations cover these securities?

358.3 Are there any bearer corpora or detached bearer coupons that are not eligible for conversion?

¹⁸In certain limited circumstances, a Federal Reserve Bank may enter into an agreement under which it agrees to record on its books an interest in Participant's book-entry securities in favor of a non-Participant, such as a governmental entity. Under these circumstances, the non-Participant would have a perfected security interest with priority over other claimants (other than the United States under §357.12(b)). It should be noted that, as set forth in §357.12(c)(1), there is no requirement that either the United States or a Federal Reserve Bank agree to creation and perfection of a security interest in this way, except as provided in §357.12(c)(1).

Fiscal Service, Treasury

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- 358.4 Which bearer corpora or detached bearer coupons are eligible for conversion to transferable BECCS or CUBES securities?
- 358.5 Which bearer corpora or detached bearer coupons are eligible for conversion to non-transferable BECCS or CUBES securities?
- 358.6 What is the procedure for converting bearer corpora and detached bearer coupons to book-entry?
- 358.7 Where do I send my bearer corpora and detached bearer coupons to be converted?
- 358.8 Are there fees for the conversion of bearer corpora or detached bearer coupons?
- 358.9 Who is responsible for the cost and risks associated with the shipment of securities?
- 358.10 How are amounts of less than one dollar credited?
- 358.11 What is required to establish the authority of a depository institution to request conversion?
- 358.12 What is Treasury's liability if the depository institution does not have authority to convert securities?
- 358.13 What is Treasury's liability if the depository institution incurs a loss because it does not follow required procedures?
- 358.14 What happens when securities are accepted for conversion?
- 358.15 What happens if securities are adjusted?
- 358.16 Are BECCS and CUBES accounts maintained separately from the STRIPS program?
- 358.17 Can BECCS and CUBES securities be reconstituted to physical form?
- 358.18 What limitations exist on liability?
- 358.19 Who is responsible for any loss resulting from the conversion of a bearer corpus missing callable coupons?
- 358.20 Can these regulations be waived?
- 358.21 Can these regulations be amended?

AUTHORITY: 12 U.S.C. 391, 31 U.S.C. Ch. 31.

SOURCE: 65 FR 65701, Nov. 1, 2000, unless otherwise noted.

§ 358.0 What does this part cover?

(a) This part applies to the conversion to book-entry of United States Treasury bearer corpora and detached bearer coupons.

(b) These instruments are accepted from depository institutions for conversion under the Bearer Corpora Conversion System (BECCS) and Coupons Under Book Entry Safekeeping (CUBES) programs.

(1) For coupons converted after November 1, 2000, these regulations supersede the terms and conditions governing CUBES set forth in the written

“Agreements to the Terms and Conditions Governing CUBES” signed by depository institutions that previously participated in the CUBES program.

(2) Depository institutions that submit bearer corpora and detached bearer coupons are deemed to agree to the terms and conditions in this part and any other requirements we may prescribe.

§ 358.1 What special terms apply to this part?

Bearer security means a definitive security payable to the bearer on its face at maturity or when called for redemption before maturity in accordance with its terms. Ownership of a bearer security is not recorded. Title to the security may pass by delivery without endorsement or notice. The only remaining unmatured bearer securities are bearer bonds.

BECCS means the Treasury's Bearer Corpora Conversion System.

BECCS security means a United States Treasury bearer security converted to book-entry form and held in BECCS.

Callable means a United States Treasury security subject to call before maturity.

Callable Coupons means the coupons associated with a callable security that are due after the date the security is subject to call.

Conversion, as used in this part, means a change in the form of a security from definitive form to book-entry form.

Corpus (plural corpora) means the principal portion of a United States Treasury bearer security.

Coupon means a definitive bearer interest instrument associated with a United States Treasury bearer security.

CUBES means the Treasury's Coupon Under Book-Entry Safekeeping program.

CUBES security means a definitive coupon detached from a United States Treasury security and held in CUBES.

Definitive security means a security held in paper form.

Depository institution means:

(1) Any insured bank, mutual savings bank, or savings bank as defined in 12 U.S.C. 1813, or any institution eligible

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to become an insured bank under 12 U.S.C. 1815;

(2) Any insured credit union as defined in 12 U.S.C. 1752, or any credit union eligible to become an insured credit union under 12 U.S.C. 1781;

(3) Any member as defined in 12 U.S.C. 1422; and

(4) Any savings association as defined in 12 U.S.C. that is an insured depository institution as defined in the Federal Deposit Insurance Act, 12 U.S.C. 1811 *et seq.*, or is eligible to become an insured depository institution under that Act.

Non-callable means a United States Treasury bearer security not subject to call before maturity.

Non-callable coupons means coupons associated with a non-callable bearer security or coupons associated with a callable bearer security that are due on or before the date on which the callable bearer security is subject to call.

Non-transferable means the ownership of a security held in BECCS or CUBES may not be transferred. See § 358.5.

Transferable means the ownership of a security held in BECCS or CUBES may be transferred. See § 358.4 of this part.

We (or “*us*”) refers to the Secretary of the Treasury and the Secretary’s delegates at the Treasury Department and the Bureau of the Public Debt. The term also extends to any fiscal or financial agent we designate to act on behalf of the United States.

§ 358.2 What regulations cover these securities?

BECCS and CUBES securities are deemed to be securities for the purposes of 31 CFR part 357, subparts A, B, and D, and are governed by that part. Notwithstanding the provisions of 31 CFR part 357, certain BECCS and CUBES securities are non-transferable. See § 358.5.

§ 358.3 Are there any bearer corpora or detached bearer coupons that are not eligible for conversion?

Bearer corpora and detached bearer coupons will not be accepted if they are submitted:

(a) Within 30 days of their maturity date; or

(b) If the call provision has been invoked, within 30 days of their call date.

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§ 358.4 Which bearer corpora or detached bearer coupons are eligible for conversion to transferable BECCS or CUBES securities?

(a) For a callable corpus to be eligible for conversion to a transferable BECCS security, all associated callable coupons must be submitted with the corpus. These callable coupons will be linked with the corpus within BECCS when converted. Once the coupons are linked to the corpus, they may not be transferred separately.

(b) A corpus that is not subject to call will be converted to a transferable BECCS security.

(c) Non-callable coupons will be converted to transferable CUBES securities.

§ 358.5 Which bearer corpora or detached bearer coupons are eligible for conversion to non-transferable BECCS or CUBES securities?

If all of the callable coupons associated with the corpus are not submitted with the corpus, the corpus will be converted to a non-transferable BECCS security. Any remaining callable coupons submitted with the corpus will be converted to individual non-transferable CUBES securities.

§ 358.6 What is the procedure for converting bearer corpora and detached bearer coupons to book-entry?

Bearer corpora and detached bearer coupons must be submitted in accordance with our procedures. They must be accompanied by an approved form executed by an authorized officer of the submitting depository institution. Until we verify the submission, the bearer corpora and detached bearer coupons are subject to rejection or adjustment.

§ 358.7 Where do I send my bearer corpora and detached bearer coupons to be converted?

Send bearer corpora and detached bearer coupons to be converted to: Bureau of the Public Debt, Division of Customer Service, P. O. Box 426, Parkersburg, WV 26106–0426.

§ 358.8 Are there fees for the conversion of bearer corpora or detached bearer coupons?

We do not charge fees for the conversion of bearer corpora or detached bearer coupons to BECCS or CUBES securities.

§ 358.9 Who is responsible for the cost and risks associated with the shipment of securities?

The following guidelines apply to the transportation of bearer corpora and detached bearer coupons:

- (a) Shipment from the depository institution is at the risk and expense of the depository institution;
- (b) Shipment between our designated agent and the Department, if required, is at our risk and expense; and
- (c) Shipment of securities that are returned to the depository institution is at the risk and expense of the depository institution.

§ 358.10 How are amounts of less than one dollar credited?

Only full dollar amounts can be held in CUBES; principal amounts that include cents cannot be held in CUBES. Upon the conversion of coupons to CUBES, amounts of less than one dollar in aggregate per CUBES CUSIP will not be credited to the account of the depository institution.

Example: A depository institution submits five coupons with face amount of \$346.88 each, and a total dollar amount of \$1,734.40. Upon conversion of these coupons to CUBES, only \$1,734.00 will be credited to the depository institution's account.

§ 358.11 What is required to establish the authority of a depository institution to request conversion?

By submitting bearer corpora and detached bearer coupons for conversion to BECCS and CUBES securities, a depository institution represents that it has the authority to request the conversion.

§ 358.12 What is Treasury's liability if the depository institution does not have authority to convert securities?

We are not liable if the depository institution has no authority to convert the bearer corpora and detached bearer coupons to book-entry form or to take

other actions in respect to book-entry accounts in BECCS and CUBES.

§ 358.13 What is Treasury's liability if the depository institution incurs a loss because it does not follow required procedures?

We are not liable for any loss incurred by the depository institution as a result of its failure to properly follow our procedures.

§ 358.14 What happens when securities are accepted for conversion?

(a) After processing and initial verification, we will transfer the securities accepted to the depository institution's book-entry account, establishing a securities entitlement in TRADES according to 31 CFR part 357 subpart B.

(b) We will do the final verification within twenty (20) business days of initial receipt of the bearer corpora and detached bearer coupons.

(c) If at any time after this twenty (20) day period we determine that the security was improperly credited to the BECCS or CUBES account of the depository institution, such as in the case of a previously undetected, counterfeit security, we reserve the right to adjust the BECCS or CUBES account.

§ 358.15 What happens if securities are adjusted?

(a) If we make an adjustment to all or part of the submitted securities, we will instruct the depository institution to transfer BECCS or CUBES securities of the same payment date and face amount from the depository institution's account to an account that we designate.

(b) If no such BECCS or CUBES securities exist in the depository institution's account, we will instruct the depository institution as to how the adjustment will be made.

(c) If the depository institution fails to comply with our instructions within five (5) business days of receipt of the instructions, we reserve the right to debit the master account of the depository institution for the face value of the adjusted bearer corpora and detached bearer coupons. By the submission of the bearer corpora and detached

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bearer coupons, the depository institution is deemed to agree to this debit.

§ 358.16 Are BECCS and CUBES accounts maintained separately from the STRIPS program?

BECCS and CUBES accounts are maintained separately from accounts maintained in Treasury's STRIPS (Separate Trading of Registered Interest and Principal of Securities) program.

§ 358.17 Can BECCS and CUBES securities be reconstituted to physical form?

After bearer corpora and detached bearer coupons have been converted to book-entry form, reconversion to physical form is prohibited. The reconstitution of a BECCS security with CUBES securities or any combination of Treasury obligations is prohibited.

§ 358.18 What limitations exist on liability?

(a) Except as otherwise provided by regulation, circular, or written agreement, any fiscal agent designated to act on our behalf is liable for its action or omission only if it failed to exercise ordinary care.

(b) We do not assume any responsibility to any party except the sending and receiving depository institutions involved in a BECCS or CUBES transaction.

(c) We do not assume any responsibility in connection with a BECCS or CUBES transaction for the insolvency, neglect, misconduct, mistake, or default of another bank or person, including the immediate participants.

§ 358.19 Who is responsible for any loss resulting from the conversion of a bearer corpus missing callable coupons?

The submitting depository institution shall indemnify the United States against any loss resulting from the conversion of a bearer corpus that is missing one or more associated callable coupons.

§ 358.20 Can these regulations be waived?

We reserve the right to waive or modify any provision of the regulations in this part for the convenience of the

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United States or to relieve any person of unnecessary hardship, if such action is not inconsistent with law, does not impair existing rights, and does not subject the United States to any substantial expense or liability.

§ 358.21 Can these regulations be amended?

We may at any time supplement, amend, or revise the regulations in this part.

PART 359—OFFERING OF UNITED STATES SAVINGS BONDS, SERIES I

Subpart A—General Information

Sec.

359.0 What does this part cover?

359.1 What regulations govern Series I savings bonds?

359.2 [Reserved]

359.3 What special terms do I need to know to understand this part?

359.4 In what form are Series I savings bonds issued?

359.5 What is the maturity period of a Series I savings bonds?

359.6 When may I redeem my Series I bond?

359.7 If I redeem a Series I savings bonds before five years after the issue date, is there an interest penalty?

359.8 How does interest accrue on Series I savings bonds?

359.9 When are interest rates for Series I savings bonds announced?

359.10 What is the fixed rate of return?

359.11 What is the semiannual inflation rate?

359.12 What happens in deflationary conditions?

359.13 What are composite rates?

359.14 How are composite rates determined?

359.15 When is the composite rate applied to Series I savings bonds?

359.16 When does interest accrue on Series I savings bonds?

359.17 When is interest payable on Series I savings bonds?

359.18 Is the determination of the Secretary on rates and values final?

359.19 How is interest calculated?

359.20–359.24 [Reserved]

Subpart B—Definitive Series I Savings Bonds

359.25 What are the denominations and prices of definitive Series I savings bonds?

359.26 When are definitive Series I savings bonds validly issued?

359.27 What is the issue date of a definitive Series I savings bonds?